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THESIS

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CAUSES OF COST INCREASES INCURRED BY GOVERNMENT
CONTRACTORS PERFORMING COAST GUARD COMMERCIAL
ACTIVITIES CONTRACTED OUT UNDER OMB A-76

by

Michael Omatsu
June 1989

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Causes of Cost Increases Incurred by Government Contractors
Performing Coast Guard Commercial Activities
Contracted Out Under OMB Circular A-76

by

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Submitted in partial fulfillment of the
requirements for the degree of

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ABSTRACT

The Office of Management and Budget Circular No. A-76 directs all Federal Executive Agencies to rely on the private sector for goods and services. The United States Coast Guard, an operating agency of the Department of Transportation, is required to comply with A-76. Many believe that Government contractors performing functions contracted out under A-76 incur excessive cost growth over the life of the contract. This thesis analyzes three such Coast Guard commercial activities which were contracted out under the Circular. Specifically, it identifies causes of cost increases, and relates the current year contract price with the cost of performing each function in-house.

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I. INTRODUCTION

A. GENERAL BACKGROUND

Since 1955, the Federal Government has articulated the general policy that it should not compete with private enterprise in obtaining goods and services, when such goods and services are available from commercial sources. Instead, agencies "...should rely on commercial sources to supply the products and services the Government needs." [Ref. 1:p. 1]

In 1966, the Office of Management and Budget (OMB) formalized this policy in its OMB Circular A-76. The most current revision to A-76, issued on August 4, 1983, reiterated its application to all Executive Agencies, and specified a number of tasks to be completed by all. The goals of A-76 were to:

- Achieve economy and enhance productivity.
- Retain Government functions (as defined in A-76) in house.
- Rely on the commercial sector.

By 1983, the policy of contracting out commercial activities had been in existence for nearly 30 years. Despite this, the Coast Guard had no formal process to carry out the requirements of A-76 and had made minimal

progress to comply. To incentivize the Service, OMB identified approximately 4,200 full-time billets for potential deletion in 1983. This represented a cut in manpower of about 11% of the Coast Guard's full-time billets (the service had roughly 38,250 active duty military and 5,600 full time civilians) [Ref. 2]. In response to this increased pressure, a new branch, G-A76, was created within the Comptroller Division of Coast Guard Headquarters to promote and monitor the intent of A-76. One of the goals of G-A76 would be to counter the proposed billet reduction.

Many studies have indicated substantial savings will result when commercially available goods and services are obtained from the commercial marketplace. In testimony before the President's Commission on Privitization, Robert P. Bedell, the former Administrator of OMB's Office of Federal Procurement Policy (OFPP), stated:

Today, OMB estimates nearly \$20 billion of commercial goods and services are produced by the Government. If those activities were competed with the private sector, the Government could procure the same level of goods and services at \$7 billion lower cost. [Ref. 3:p. 130]

Since implementing A-76 policy in 1983, the Coast Guard has actually recognized substantial savings. To date, about \$79 million has been saved by contracting out functions that were once a Government responsibility, representing a savings of roughly 36.4% [Ref. 4]. However,

many contractors have subsequently incurred increases in costs to perform the function. Many believe these increases are excessive, making the contractor less cost effective than leaving the function in-house in the first place. This thesis will address the cost effectiveness of A-76 policy in the Coast Guard.

B. STUDY OBJECTIVES/RESEARCH QUESTIONS

The primary objectives of this research are to:

- Develop an understanding for some of the causes of cost increases experienced by Government contractors performing commercial activities (CA's) for the Coast Guard.
- Determine if contractors are still performing work at a cost that is less than an adjusted Government Most Efficient Organization (MEO).

The following primary research question is:

1. What are the causes of cost increases experienced by Government contractors performing CA for the Coast Guard?

The following subsidiary research questions supplement and support the primary research question:

1. How has each contractor's position changed, relative to the respective MEO?
2. What alternatives exist for the Coast Guard to re-compete a function that has been contracted out?

C. SCOPE AND ASSUMPTIONS

This thesis will analyze three Coast Guard CA's, where costs of performance have increased subsequent to contract award. Since the Performance Work Statement (PWS) specifies exactly what is required under the contract, the thesis will also examine PWS deficiencies that may have contributed to cost increases after contractor performance begins. It will address some of the problems encountered in administering CA contracts.

D. METHODOLOGY

The researcher gathered data from three sources for this thesis. First, to compile background and historical information on A-76, a comprehensive literature search was conducted. A custom bibliography was requested from the Defense Logistics Studies Information Exchange (DLSIE) in Fort Lee, VA. Facilities in the Dudley Knox Library at the Naval Postgraduate School in Monterey, CA, were also used.

Second, to gain an understanding on current A-76 policy, telephone interviews were conducted with personnel from Coast Guard Headquarters in Washington, DC. Department of Transportation (DOT) and Coast Guard directives were also reviewed.

Finally, to conduct in-depth analysis of the three CA's, fact-finding visits were conducted at Maintenance and Logistics Command, Pacific, Alameda, CA; Fourteenth Coast

Guard District and Base Honolulu Housing Office in Honolulu, HI; Eleventh Coast Guard District, Long Beach, CA; and Group San Diego, CA. Telephone interviews were conducted with personnel from Support Center Seattle, Seattle WA.

E. THESIS ORGANIZATION

The thesis is divided into four chapters. Chapter I provides an introduction to the A-76 philosophy and the questions to be answered in the thesis. It also includes a discussion on the methodology employed in the thesis.

Chapter II presents background information on the CA/A-76 program and discusses the Coast Guard's implementation of the program.

Chapter III provides an in-depth analysis and interpretation of the data gathered on three Coast Guard CA programs.

Finally, Chapter IV provides conclusions and recommendations.

II. BACKGROUND

A. THE COAST GUARD IMPLEMENTS OMB CIRCULAR NO. A-76

In 1966, OMB issued its Circular No. A-76, permanently establishing the Federal policy for Government performance of commercial activities (CA's). It was revised in 1967 and 1979. Following the 1979 revision, the Coast Guard estimated it would need at least 60 full-time employees to carry out A-76's requirements. At the time, no billets were available for reprogramming, and OMB had not granted the Service additional billets. Therefore, the Coast Guard's official position was to take no action. Table 1 compares the Coast Guard's efforts in contracting out CA's with those of her sister Services. [Ref. 4]

On August 4, 1983, A-76 was again revised, simplifying and clarifying some of its procedures, and to make implementation easier for Federal agencies. Also in 1983, OMB granted the Coast Guard an additional 20 billets, 15 civilian and five military, to be used for carrying out the requirements of A-76. With these new billets, an A-76 program office, G-A76, was established in the Office of the Comptroller in Coast Guard Headquarters, Washington, DC. [Ref. 4]

Following the August 4, 1983, revision of A-76, the Office of the Secretary of Transportation (OST) issued

TABLE 1

ACTUAL BILLETS CONVERTED TO CONTRACT:

1982 TO 1985

| SERVICE | CIVILIAN | MILITARY |
|--------------|----------|----------|
| 1982 | | |
| ARMY | 1,184 | 190 |
| NAVY | 889 | 70 |
| AIR FORCE | 719 | 54 |
| MARINE CORPS | 17 | 0 |
| COAST GUARD | 0 | 0 |
| 1983 | | |
| ARMY | 1,175 | 269 |
| NAVY | 3,256 | 382 |
| AIR FORCE | 232 | 91 |
| MARINE CORPS | 0 | 0 |
| COAST GUARD | 0 | 0 |
| 1984 | | |
| ARMY | 1,051 | 252 |
| NAVY | 1,323 | 78 |
| AIR FORCE | 723 | 457 |
| MARINE CORPS | 18 | 1 |
| COAST GUARD | 0 | 0 |

ACTUAL BILLETS CONVERTED TO CONTRACT:

1982 TO 1985 (CONTINUED)

| SERVICE | CIVILIAN | MILITARY |
|--------------|----------|----------|
| | 1985 | |
| ARMY | 1,763 | 693 |
| NAVY | 415 | 869 |
| AIR FORCE | 690 | 190 |
| MARINE CORPS | 156 | 5 |
| COAST GUARD | 7 | 0 |

Sources: U. S. Congress, House Committee on Appropriations. FY 1987 DOD Appropriation Hearings Before the Subcommittee on DOD, Vol. 1, Pt. 6, 99th Congress, 2nd Session, 1986, pp. 524-525, and United States Coast Guard OMB Circular A-76 2nd Quarter FY 1989 Report.

Department of Transportation (DOT) Order 4400.2C, on February 24, 1984, which directed its operating agencies to comply with the requirements of A-76 [Ref. 5]. The U. S. Coast Guard, an operating agency of DOT, thus began in earnest its efforts to implement the intent of the policy.

B. OMB TAKES PRE-EMPTIVE BILLET CUTS

To identify those billets which could be converted to contractor performance, OMB examined the entire inventory of Coast Guard civilian billet structure maintained by the Office of Personnel Management. From the inventory, OMB estimated that 4,200 billets could possibly be deleted. On this basis, OMB then began a series of yearly pre-emptive billet deletions, starting in 1985. In order to minimize the effects of the deletions, the Coast Guard would need to proceed rapidly with the implementation of A-76. Table 2 lists the number of billets OMB deleted each year and the corresponding billet conversion to contract achieved by the Coast Guard. As shown, a deficit of 729 billets now exists as of the second quarter of Fiscal Year 1989. [Ref. 4]

C. STUDIES AND REVIEWS OF COMMERCIAL ACTIVITIES

One of the first tasks the Coast Guard faced in 1985 was developing an inventory of its own which identified all CA's currently performed in-house. To compile this inventory, G-A76 issued a service-wide instruction, informing Field Commands about the goals and objectives of

TABLE 2

OMB PREMPTIVE BILLET DELETIONS/
COAST GUARD SAVINGS (BILLET REDUCTIONS)

| FISCAL YEAR | OMB BILLET DELETIONS | COAST GUARD SAVINGS |
|----------------------------|-------------------------|------------------------|
| 1984 | 0 | 0 |
| 1985 | 582 | 7 |
| 1986 | 333 | 392 |
| 1987 | 231 | 174 |
| 1988 | 100 | 393 |
| 1989 (through 2nd Quarter) | <u>558</u> | <u>109</u> |
| Totals: | 1804 | 1075 |

Source: United States Coast Guard OMB Circular A-76
2nd Quarter Report

A-76, and directed them to submit a list to Headquarters of all functions performed by the Coast Guard. G-A76 then evaluated each function to determine whether to include it in a CA inventory.

In general, operational units such as Coast Guard cutters which are capable of towing disabled vessels, were exempted from consideration, since they also perform many Government functions such as Law Enforcement and Military Readiness. It was decided that these functions could not be contracted out. The remaining functions were then listed in the inventory, which was forwarded to OST, to be combined in a Department-wide inventory, and submitted to OMB for review. [Ref. 6]

After the inventory was completed and OMB agreed with its content, a timetable for review of each function was developed. Units performing these functions were assigned deadlines for completing a Management Study, which required an in-depth analysis of the function. Generally, the first item completed in a study is the Performance Work Statement (PWS), since this was the document which described exactly what the function did. From the PWS, the Government then determined the best organizational structure, staffing, and operating procedures for what was defined as the Most Efficient Organization (MEO). Following this, the costs of operating the function under the MEO were developed. The PWS was then used in a competition with private industry,

comparing an offeror's cost to perform the activity with the MEO's costs.

Ideally, personnel thoroughly familiar with A-76 should have been assigned to each unit for the express purpose of conducting the Management Study and developing the PWS. Unfortunately, no such personnel were made available from Coast Guard Headquarters [Ref. 6]. Technical assistance was made available by G-A76, but the bulk of the work was done by each unit. Also, since OMB had taken the preemptive billet cuts, it made the process more difficult, yet there was pressure to have these tasks completed as soon as possible.

Many of the personnel used in conducting the study were inadequately trained and unfamiliar with A-76. Often, this resulted in late development of the PWS, forcing late completion of the Management Study, and subsequently delays in decisions to contract out the function or keep it in-house. [Ref. 6]

D. DEVELOPING THE PERFORMANCE WORK STATEMENT

For the individual tasked with completing the Management Study, developing a PWS represents a major amount of effort. Since the MEO and prospective contractor's bids are based on this document, it must be accurate and comprehensively describe all the work which the function performs. To be effective, the PWS would also

need to be written clearly and concisely. Usually, there was pressure to have the PWS completed, so the next steps in the A-76 process could begin. This meant that the PWS author would have to quickly study the function, analyze the tasks it performed, and produce the PWS. In spite of the climate in which many PWS's were developed for the Coast Guard, most have proven workable and have overlooked few tasks. [Ref. 6]

In developing the PWS, work which the function performs was broken down into two broad categories (although the PWS may not be explicit in differentiating between the two) - Standing, or Scheduled Work, and Unscheduled Work. Standing or Scheduled Work is of a recurrent nature, and can be planned for in advance. Routine maintenance falls under this category. The PWS usually specifies all Standing Work required, and the frequency in which it is to be performed. [Ref. 7]

Unscheduled Work is that type of work which cannot be accurately planned for, but can be expected to occur over the life of the function. Repairs, installations, and modifications are examples of Unscheduled Work.

These two categories of work are also broken down into three work levels. All Standing Work is Level I Work, which is quantified at a fixed price, and can be included in a contract at that price. Unscheduled Work falls into Level II and Level III Work. Level II Work includes all

repairs up to \$25,000; this is also quantified at a fixed price and can also be included at a fixed contract price.

All other Unscheduled Work is considered Level III Work, which is negotiated as performance dictates (assuming it has been contracted out).

Finally, the PWS must provide accurate historical data. This affords potential bidders some idea of the nature and frequency of Level II and Level III Work to be expected, and gives them the basis for developing their price proposals.

E. THE COAST GUARD'S ACHIEVEMENTS

To date, reviews of 77 CA's have been completed. Reviews of 19 CA's are currently in progress, with 74 scheduled for future reviews [Ref. 8]. Table 3 summarizes overall Coast Guard accomplishment to date under A-76. As can be seen, significant savings can be realized by contracting out functions to commercial sources. Note also that of those CA's retained in house, many were accompanied with a reduction in the size of the original Coast Guard workforce, an additional benefit of the A-76 philosophy.

Of the functions contracted out, 16 were conducted on a competitive basis, while 25 were reserved for small, disadvantaged businesses under the Small Business Administration (SBA) 8(a) set-aside program. [Ref. 8] All contracts awarded competitively were solicited as

TABLE 3

COAST GUARD A-76 ACCOMPLISHMENTS
(AS OF 2ND QUARTER, FY 1989)

| ACTION TAKEN | NO. OF CA'S | BILLETS REDUCED MIL | CIV | AVERAGE YEARLY SAVINGS (\$K) |
|---------------------|----------------|------------------------|------------|---------------------------------|
| CONTRACT AWARDED | 41 | 236 | 556 | 19,075 |
| IN-HOUSE | <u>36</u> | <u>70</u> | <u>213</u> | <u>7,760</u> |
| TOTALS | 77 | 306 | 769 | 26,835 |

Source: United States Coast Guard OMB
Circular A-76 2nd Quarter Report.

Invitations For Bid (IFB). This was done because the Government was also a bidder based on the MEO, and would have had an unfair advantage in a negotiated contract.

III. PRESENTATION OF DATA

A. SELECTION OF THREE CONTRACTED COMMERCIAL ACTIVITIES

To conduct the indepth analysis to discern some of the factors causing cost increases in Coast Guard contracted commercial activities (CA's), three such activities were selected. To determine the degree to which a CA's complexity may influence these cost increases, the analysis consisted of relatively complex, moderately complex, and relatively simple CA's. Base Honolulu Housing Maintenance represents a fairly complex CA, which includes much standing and unscheduled work, both in roughly equal proportions. Group San Diego Food Services represents a moderately complex CA, which contains mostly standing work but also contains a small degree of unscheduled work. Support Center Seattle Gate Guard Services represents a relatively simple CA, which lists primarily standing work.

Input from G-A76 was solicited and considered in the selection process. Also, to ensure data availability to get an idea of program effectiveness, the CA's selected for study had been performed by contractors since fiscal year 1986, providing over three years of data per function.

B. BASE HONOLULU HOUSING MAINTENANCE

The organization performing maintenance of Coast Guard Base Honolulu's family housing had 292 units under its responsibility on the Island of Oahu in Hawaii. These units included both enlisted townhouses and officers' quarters at Kia'i'Kai Hale Housing area, Senior officer quarters at Wailupe, and the District Commander's Quarters at Diamond Head. [Ref. 9]

When the function was being performed in-house, the Coast Guard maintained a work force of 18 employees. With this organization, the Government cost was \$5,056,468 over a five year period, or about \$1,011,294 per year. [Ref. 10] G-A76 review of this function indicated that it was overstaffed for the amount of work present. [Ref. 11]

Base Honolulu started its management study of the function during late 1984, completing it in August, 1985. [Ref. 12] In developing the Most Efficient Organization (MEO), the staffing for this function was reduced to twelve employees, as follows:

- One Maintenance Mechanic, WS-9 (Over-all in charge).
- Three Maintenance Mechanics, WG-8.
- One Electrician, WG-9.
- One Plumber, WG-9.
- One Plumber's Helper, WG-7.
- One Painter, WG-9.
- Two Painter's Helpers, WG-8.

- One Gardener, WG-5.
- One Office Secretary, GS-5.
- Total of 12. [Ref. 13]

The estimated cost of Government performance of the function under the MEO was \$3,725,522 over a five year period, or about \$745,104 per year [Ref. 10].

The Performance Work Statement (PWS) was developed by Base Honolulu personnel in accordance with Office of Federal Procurement Pamphlet Number 4, "Writing and Administering Performance Work Statement," issued in October 1980. It was completed prior to July 1985, and formed the basis of Section C, Description/Specs/Work Statement, of the Invitation for Bid (IFB) on this function. The IFB itself was assembled by the contracting branch, Fourteenth Coast Guard District, in Honolulu, HI. Prior to this contract none of the personnel in this branch had any experience in this type of a contract. To save time, the schedule and contract clauses of the IFB were adapted to Department of Transportation/Coast Guard requirements from an Air Force housing maintenance contract. [Ref. 14]

The IFB was issued in July, 1985. Five responses were received. DWS, Inc., of Scottsdale, AZ was the low bidder, at \$1,612,522 for performance over a five year period. DWS brought with it considerable experience, having similar housing maintenance contracts with other military services

on the Island of Oahu. No protests were filed, and the contract was awarded to DWS on 17 December 1985, in the amount of \$145,700 for performance over the period February 1, 1986 through September 30, 1986. [Refs. 9, 14]

During the period in which contract performance began until present, twelve contract modifications have been issued [Ref. 9]. Table Four lists each modification in detail.

Since the function was contracted out, both the customers and contractor have generally been satisfied. However, there have been some areas where improvements could be made.

1. Problem Areas Identified by the Government

During the transition period, tenants accustomed to service provided by Coast Guard employees needed to readjust their expectations when the contractor began performance. Since the Government organization had excess capacity, there was a greater likelihood of having an idle worker available, and therefore being able to respond immediately to a routine request. The contractor, being more efficiently staffed, took longer to respond. This caused tenants to complain about slow service. However, response times were generally within those specified in the PWS, and the quality of work performed was acceptable. As more of the tenants who received service under the old

TABLE 4

MODIFICATIONS TO CONTRACT DTCG 34-85-B-00119,
MAINTENANCE OF FAMILY HOUSING,
14TH COAST GUARD DISTRICT

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|---------|-----------------------|-------------------|---|
| | 17DEC85 | 136,000 | 136,000 | CONTRACT AWARD DATE |
| 1 | 26MAR86 | 7,645 | 143,645 | CHANGE ORDER FOR ADDITIONAL WORK ORDERED. IN FUTURE, ADDITIONAL WORK TO BE HANDLED AS DELIVERY ORDER VICE CHANGE ORDERS |
| 2 | 21APR86 | | | CORRECTED PARA 4.3.6 OF PWS |
| | 15JUL86 | 168,000 | 311,645 | ONE YEAR EXTENSION, FOR PERIOD 1OCT86 THRU 30SEP87 |
| 3 | 15OCT86 | | | INCORPORATION OF DOL WAGE DETERMINATION 86- 1063 OF 22SEP86 |
| 4 | 24MAR87 | | | CHANGE CONTRACTOR'S MAILING ADDRESS |
| 5 | 4APR87 | | | EXTRA WORK TO BE ORDERED BY BASE HONOLULU COMPTROLLER |
| 6 | 16APR87 | 20,688 | 332,333 | WAGE INCREASES DUE TO DOL WAGE DETERMINATION 86-1063 |
| 7 | 1OCT87 | 188,688 | 521,021 | ONE YEAR EXTENSION, FOR PERIOD 1OCT87 THRU 30SEP88 |

MODIFICATIONS TO CONTRACT DTCG 34-85-B-00119,
 MAINTENANCE OF FAMILY HOUSING,
 14TH COAST GUARD DISTRICT
 (CONTINUED)

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|--------|-----------------------|-------------------|---|
| 8 | 2DEC87 | | | FUNDS AVAILABLE THRU 31JAN88 (OPERATING UNDER CONTINUING RESOLUTION) |
| 9 | 2DEC87 | | | CHANGE ACCOUNTING AND APPROPRIATION DATA |
| 10 | 1FEB88 | | | FUNDS AVAILABILITY EXTENDED THROUGH 30SEP88, ACCOUNTING AND APPROPRIATION DATA CHANGED (CEASED OPERATING UNDER CONTINUING RESOLUTION) |
| 11 | 1AUG88 | | | INCORPORATION OF CONTRACTOR'S PRICING PROPOSAL FOR BATH TUB REPLACEMENT |
| 12 | 1OCT88 | 188,688 | 709,709 | ONE YEAR EXTENSION FOR THE PERIOD 1OCT88 THRU 30SEP89 |

Source: Contract file for Base Honolulu Family
 Housing Maintenance, Contract Number DTCG 34-85-B-
 00119, located at Maintenance and Logistics Command,
 Pacific, Alameda, CA.

Government organization moved out, complaints about slow response became less. [Ref. 12]

As the contract is written, there is no method to take deductions for sub-standard performance. If the contractor does not perform to the level specified in the contract, the Contracting Officer does not have many alternatives to provide an incentive to improve. In practice, the Contracting Officer's Technical Representative (COTR) has generally given the contractor a second chance to make corrections especially during the early stages of the contract. Fortunately, DWS has proven to be a conscientious performer and has made efforts to improve. However, for a recalcitrant contractor, including incentives in the contract would provide a means for the Contracting Officer to get the contractor's attention to make improvements. [Refs. 12, 14]

Control over Government Furnished Equipment (GFE) is lacking. Tools used by the former Government organization were made available to the contractor. However, there was no corresponding system to maintain accountability of these items. Although no inventory has been made since the contractor began performance, many hand tools such as electric drills, saws, and other small high-dollar pieces of equipment are suspected of being misappropriated. [Ref. 12]

Finally, the COTR and Housing Officer both identified a lack of administrative contract support from the Administrative Contracting Officer (ACO), now located at Maintenance and Logistics Command, Pacific, in Alameda, CA. When this function was held locally in the Fourteenth District, the ACO was thoroughly familiar with the contract and visited the project often. The current ACO has never visited the site. Further, contract interpretations either are subject to inordinate delays, or are never received.

2. Problem Areas Identified by the Contractor

Overall, the contractor reports satisfaction in performing the contract. However, they, too, see some areas where improvements could be made. Although none of these areas identified are serious enough to seek relief through adjudication, they should be addressed. [Ref. 15]

The contractor, too, has experienced problems in contract interpretation, and believes the physical distance between their worksite and the Contracting Officer to be a root cause. They perceive a reluctance on the part of the Contracting Officer to become involved. As an example, the contract definition of "appliances" and "equipment" is not clear. The contract does state that an appliance which become unserviceable will be replaced by the Government, while equipment which becomes unserviceable will be replaced by the contractor. The Housing Officer and COTR define water heaters as equipment, while the contractor

views these items as appliances. A letter written several months ago to the Contracting Officer requesting clarification on this issue remains unanswered. [Ref. 15]

Delivery of GFE and Government Furnished Material (GFM) is difficult to plan for. Perhaps because of the distance and the routing that GFE/GPE must travel to get to Hawaii, it takes a long time for these items to arrive from the date of order. Of course, late arrival causes schedule slippages, which can result in cost increases. [Ref. 15]

Finally, the responsibilities of the Housing Officer, the assistant Housing Officer, and the COTR have not been clearly defined to the contractor. They have been tasked by various members of the Housing Office, but weren't sure if that person actually had the authority. Specifying individual responsibilities would help reduce the confusion factor. [Ref. 15]

Despite these problems, the contractor has tried to make the contract work. The company's philosophy is to try to work with the customer and give him what he wants. [Ref. 15]

C. GROUP SAN DIEGO FOOD SERVICES

The galley at Group San Diego was responsible for providing meals to Group personnel as well as all tenant commands, such as Air Station San Diego and attached patrol boats. Reservists serving at Group units would also be

authorized meals from the galley while training or otherwise functioning in an official capacity. Occasionally, transient personnel, such as air crews from other commands or crews from visiting vessels would be dining at the galley. [Ref. 16]

The number of meals served for the one year period October, 1983, to September, 1984, were:

- Breakfast - 15,171 (average = 1264.25 per month, standard deviation = 91.77 per month).
- Lunch - 24,248 (average = 2,017.33 per month, standard deviation = 138.33 per month).
- Dinner - 11,915 (average = 992.92, standard deviation = 78.28 per month). [Ref. 16]

The authorized billet structure for the galley included the following Subsistence Specialists and non-rated personnel:

- One Senior Chief Petty Officer.
- One First Class Petty Officer.
- One Second Class Petty Officer.
- Three Third Class Petty Officers.
- Four non-rated Mess Cooks. [Ref. 17]

The Government estimate to perform this function was \$1,596,269 for a 4.33 year period, or an average of \$368,370 per year [Ref. 10].

After review by G-A76, it was decided that the function should be contracted out to a firm under the Small Business Administration's (SBA) 8(a) set-aside program. The SBA

provided a firm, Aleman Food Service, San Antonio, TX, to work with the Coast Guard.

Negotiations were conducted at Coast Guard Headquarters, Washington, D.C. The Contracting Officer negotiated an estimated price of \$106,020 for performance over a period of four months with four one-year renewable options priced at \$318,060 per year. Total estimated contract price was \$1,378,200. Payment to the contractor would occur monthly, based on the actual numbers of each meal (breakfast, lunch, and dinner) served. A schedule of meal prices is included in the contract, from which the payment is calculated. The contract was signed on May 30, 1985, with contract performance beginning the following day, June 1, 1985. [Ref. 16]

Over the life of the contract, 19 modifications have been issued [Ref. 16]. Table Five lists each modification in detail.

1. Government's Perception of the Contract

From the customer's viewpoint, the contractor has been performing superbly. Initial start-up went smoothly. Over the life of the contract, no major problems have occurred. Statistical sampling conducted as per the contract has revealed generally excellent service. Although the contract has provisions for deductions due to unsatisfactory performance, there has never been a need

TABLE 5

MODIFICATIONS TO CONTRACT DTCG 23-85-C-60003,
FULL FOOD SERVICES,
COAST GUARD GROUP SAN DIEGO, CA

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|---------|-----------------------|-------------------|---|
| | 30MAY85 | 106,020 | 106,020 | CONTRACT AWARDED |
| 1 | 30MAY85 | | | CHANGED CONTRACT NUMBER |
| 2 | 4JUN85 | | | CHANGED ACCOUNTING DATA |
| 3 | 1JUN85 | (6,060) | 99,960 | CREDIT APPLIED TO CONTRACT FOR SUBSISTENCE AND EXPENDABLE ITEMS ALREADY IN INVENTORY |
| 4 | 1OCT85 | 318,060 | 418,020 | ONE YEAR EXTENSION FOR PERIOD 1OCT85 THRU 30SEP 86 |
| 5 | 1FEB86 | | | INCORPORATE DEPARTMENT OF LABOR (DOL) WAGE DETERMINATION 85-1050 |
| 6 | 1FEB86 | 7,651 | 425,671 | WAGE INCREASE DUE TO DOL WAGE DETERMINATION |
| 7 | 13AUG86 | (40,605) | 385,066 | ADMINISTRATIVE MODIFICATION, CURRENT OBLIGATION GREATER THAN SUM OF NET INVOICES AND ESTIMATED INVOICES |
| 8 | 22SEP86 | (6,301) | 378,765 | ADMINISTRATIVE MODIFICATION, CURRENT OBLIGATION GREATER THAN SUM OF NET INVOICES AND ESTIMATED INVOICES |

MODIFICATIONS TO CONTRACT DTCG 23-85-C-60003,
 FULL FOOD SERVICES,
 COAST GUARD GROUP SAN DIEGO, CA
 (CONTINUED)

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|------------------|-----------------------|-------------------|--|
| 9 | 2OCT86 | | | INCORPORATE DOL WAGE DETERMINATION 85- 1050 (REV.1) DATED 23MAY86 |
| 10 | 1OCT86 | 318,060 | 696,825 | ONE YEAR EXTENSION, FOR PERIOD 1OCT86 THRU 30SEP87 |
| 11 | 1OCT86 | 1,682 | 698,517 | WAGE INCREASE DUE TO DOL WAGE DETERMINATION |
| 12 | 17AUG87 | | | CHANGE CONTRACTING OFFICER'S ADDRESS |
| 13 | 28SEP87 (30,000) | | 668,517 | ADMINISTRATIVE MODIFICATION, CURRENT OBLIGATION GREATER THAN SUM OF NET INVOICES AND ESTIMATED INVOICES |
| 14 | 1OCT87 | 318,060 | 986,577 | ONE YEAR EXTENSION, FOR PERIOD 1OCT87 THRU 30SEP88, INCORPORATE DOL WAGE DETERMINATION 85-1050 (REV.2) DATED 8DEC86 |
| 15 | 1DEC87 | | | FUNDS AVAILABLE THRU 31JAN88 |
| 16 | 1FEB88 | 8,756 | 995,333 | WAGE INCREASE DUE TO DOL WAGE DETERMINATION |
| 17 | 11APR88 | | | CHANGE ADDRESS FOR MAILING CONTRACTOR'S CHECKS |

MODIFICATIONS TO CONTRACT DTCG 23-85-C-60003,
 FULL FOOD SERVICES,
 COAST GUARD GROUP SAN DIEGO, CA
 (CONTINUED)

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|--------|-----------------------|-------------------|--|
| 18 | 1OCT88 | 318,060 | 1,313,393 | ONE YEAR EXTENSION, FOR PERIOD 1OCT88 THRU 30SEP89, INCORPORATION OF DOL WAGE DETERMINATION 85- 1050 (REV.3) DATED 14AUG87 |
| 19 | 7NOV88 | | | INCORPORATE NEW SCHEDULE OF MEAL PRICES |

Source: Contract file for Group San Diego Full Food Services, Contract Number DTCG 23-85-C-60003, located at Maintenance and Logistics Command, Pacific, Alameda, CA.

to take this action. The galley is now cleaner and more pleasant than before. [Ref. 17]

In performing this contract, the only problem that Group San Diego personnel encountered was in trying to get an interpretation from the Contracting Officer at the Maintenance and Logistics Command located at Alameda, CA. As an example, the Group wanted to hold a unit cook-out for crew morale, with food and services being provided by Group personnel. This would tend to disrupt the contractor's meal count figures, since, under the contract, they would be required to set up the galley for the meal, but the numbers served in the galley would be very small or nonexistent. Group personnel sought but never received clarification on this issue from the Contracting Officer. Eventually, differences were worked out between the Group and the contractor, but the Contracting Officer should have provided guidance. [Ref. 17]

This is the last year the contract will be performed by Aleman Food Services, since they are graduating from the SBA 8(a) program. Some minor problem areas in the PWS have been identified, which will be corrected before the next solicitation. [Ref. 17]

2. Contractor's Perception of the Contract

The contractor is satisfied in the performance of this contract. The contractor's supervisor on site has proven to be an invaluable asset. A former Senior Chief

Petty Officer Subsistence Specialist, he performed the same basic function at this same galley under Coast Guard manning. Therefore, he knew exactly what the customer expected and the best way to have met those expectations. [Ref.18]

In performing the contract, there have been no major problems. Aside from the problem that surfaced in paragraph C.1. above, the only other area which needs to be resolved is food services provided for visiting dignitaries, such as flag officers or equivalent civilian personnel. The PWS does not discuss this event, but the command prefers to have meals served to the official party at their tables rather than subject them to standing in the chow line. The contractor is not staffed for this service, but tries to accommodate these requests. Including this event in the PWS would let the next contractor be aware of this requirement and be able to plan for it. [Ref.18]

D. GUARD SERVICES AT SUPPORT CENTER SEATTLE

The organization providing guard services at Support Center Seattle is responsible for providing protection of the Center. Property to be protected is located all at one site, with a total of 15 acres of land, six buildings, 1,800 feet of waterfront, 15 tenant commands, and one barracks. Access to the Center is through the gate. [Ref.19] When the Government performed this function,

there were five GS-4 civilian workers forming the work force with a Chief Warrant Officer acting as a Supervisor [Ref. 4]. The estimated cost of performance by the Government was \$1,339,567 over a five-year period, or an average of \$267,913 per year [Ref. 10].

After review by G-A76, it was decided to contract this function out under the Small Business Administration's (SBA) 8(a) program for small, disadvantaged businesses. Negotiations were conducted by the Contracting Officer from the Thirteenth Coast Guard District in Seattle, WA.

The contract was awarded to Professional Services Unlimited of Tacoma, Washington, in the amount of \$230,852.40 for the period 1 OCT 1985 to 30 SEP 1986. Four one-year options were included, for a total contract price (if all options were exercised) of \$1,044,287.52. [Ref. 19]

To date, there have been 11 contract modifications issued [Ref. 19]. Table Six lists these modifications and the effects they have had on contract price.

In researching this contract, only the COTR was interviewed; the contractor declined to be interviewed. In the COTR's opinion, the contract is successful, and both the customer and contractor are satisfied. Because the work is routine and detailed fairly well in the PWS, there have been no problems between the Government and the contractor. Also, since the PWS is comprehensive, there has been no need to seek clarification from the Contracting

TABLE 6

MODIFICATIONS TO CONTRACT DTCG 33-85-R-01862,
GUARD SERVICES,
COAST GUARD SUPPORT CENTER, SEATTLE, WA

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|---------|-----------------------|-------------------|--|
| | 4SEP85 | 230,852 | 230,852 | CONTRACT AWARDED, PERFORMANCE TO BEGIN 1OCT85 |
| 1 | 20DEC85 | | | CHANGE IN CONTRACTOR'S MAILING ADDRESS |
| 2 | 16APR86 | | | GUARDS ALLOWED TO WEAR BEARDS |
| 3 | | | | LOCATIONS OF DINING FACILITIES AVAILABLE TO GUARDS IDENTIFIED |
| 4 | 1OCT86 | 202,850 | 433,702 | ONE YEAR EXTENSION FOR PERIOD 1OCT86 THRU 30SEP87 |
| 5 | 1JAN87 | (67,011) | 366,691 | DECREASE NUMBER OF GUARDS REQUIRED, DELETE VEHICLE REQUIREMENT |
| 6 | 1OCT87 | 113,790 | 480,481 | ONE YEAR EXTENSION FOR PERIOD 1OCT87 THRU 30SEP88 |
| 7 | 7DEC87 | | | DEPARTMENT OF LABOR (DOL) WAGE DETERMINATION 87-862 DATED 1OCT87 INCORPORATED INTO CONTRACT |
| 8 | 1DEC87 | | | FUNDS EXTENDED THRU 31JAN87 |

MODIFICATIONS TO CONTRACT DTCG 33-85-R-01862,
GUARD SERVICES,
COAST GUARD SUPPORT CENTER, SEATTLE, WA
(CONTINUED)

| MOD NO. | DATE | AMOUNT OF INCREASE | CONTRACT TOTAL | REMARKS |
|------------|---------|-----------------------|-------------------|--|
| 9 | 18FEB88 | | | FUNDS AVAILABLE THRU 30SEP88 |
| 10 | 1OCT88 | 33,184 | 513,665 | EQUITABLE PRICE ADJUSTMENT, RETROACTIVE PAYMENT OF WAGE INCREASES CAUSED BY DOL WAGE DETERMINATION 87-862; \$19,973 FOR PERIOD 1OCT85 THRU 30SEP86, \$11,218 FOR PERIOD 1OCT86 THRU 30SEP87, \$4,268 FOR PERIOD 1OCT87 THRU 30SEP88 |
| 11 | 1OCT88 | 113,726 | 627,391 | ONE YEAR EXTENSION, FOR PERIOD 1OCT88 THRU 30SEP89 |

Source: Contract file for Support Center, Seattle,
Guard Services, Contract Number DTCG 33-85-R-01862,
located at Maintenance and Logistics Command,
Pacific, Alameda, CA.

Officer. However, the COTR has not been designated in writing by the Contracting Officer. [Ref. 20]

IV. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Based on the data gathered from three Coast Guard commercial activity functions, the primary reason for cost increases are wage increases from Department of Labor Wage Determination Adjustments. In only one instance, cost increases were attributable to increases in the scope of work. Table 7 summarizes these cost increases.

For Base Honolulu Family Housing Maintenance, the cost of the contract was raised a total of \$49,021. The Group San Diego Full Food Services contract was increased a total of \$18,099. At Support Center Seattle, the Guard Services contract was increased by \$35,458.

These results are similar to the findings of a 1985 General Accounting Office review of twenty Department of Defense functions contracted out under A-76. They found that "...cost increases resulted primarily from additional work and authorized wage increases." [Ref. 21, pg. 3] They further stated:

The Service Contract Act of 1965, as ammended, (41 USC 351, et seq.), requires Federal contractors to pay their employees not less than the prevailing minimum wage, as determined by the Department of Labor, based on the type of work and the locale. Contractor bids and in-house cost estimates do not include costs for future wage increases. Consequently, when the

TABLE 7

SUMMARY OF COST INCREASES
TO CONTRACT PRICE

BASE HONOLULU
HOUSING MAINTENANCE

| | |
|-----------------|---------------------|
| <hr/> | |
| YEAR 1: | 1FEB86 THRU 30SEP86 |
| INCREASED WORK: | \$7,645 |
| TOTAL FOR YEAR: | \$7,645 |
| <hr/> | |
| YEAR 2: | 1OCT86 THRU 30SEP87 |
| WAGE INCREASES: | \$20,688 |
| TOTAL FOR YEAR: | \$20,688 |
| <hr/> | |
| YEAR 3: | 1OCT87 THRU 30SEP88 |
| WAGE INCREASES: | \$20,688 |
| TOTAL FOR YEAR: | \$20,688 |
| <hr/> | |

SUMMARY OF COST INCREASES
TO CONTRACT PRICE (CONTINUED)

GROUP SAN DIEGO
FULL FOOD SERVICES

YEAR 1: 1JUN85 THRU 30SEP85

NO INCREASES THIS YEAR

TOTAL FOR YEAR: 0

YEAR 2: 1OCT85 THRU 30SEP86

WAGE INCREASES: \$7,651

TOTAL FOR YEAR: \$7,651

YEAR 3: 1OCT86 THRU 30SEP87

WAGE INCREASES: \$1,692

TOTAL FOR YEAR: \$1,692

YEAR 4: 1OCT87 THRU 30SEP88

WAGE INCREASES: \$8,756

TOTAL FOR YEAR: \$8,756

SUMMARY OF COST INCREASES
TO CONTRACT PRICE (CONTINUED)

SUPPORT CENTER SEATTLE
GUARD SERVICES

YEAR 1: 1OCT85 THRU 30SEP86

WAGE INCREASES: \$19,972

TOTAL FOR YEAR: \$19,972

YEAR 2: 1OCT86 THRU 30SEP87

WAGE INCREASES: \$11,218

TOTAL FOR YEAR: \$11,218

YEAR 3: 1OCT87 THRU 30SEP88

WAGE INCREASES: \$4,278

TOTAL FOR YEAR: \$4,278

prevailing minimum wage increases, contracts are modified to reimburse contractors for the increased wages. [Ref.21, pg. 3]

2. Despite the above cost increases, contractor performance of each function is still more economical than if the functions were retained in house. To make this comparison, a hypothetical Government organization was developed, based on the MEO or the Government workforce in existence at the time the function was turned over to the contractor.

The cost of the hypothetical Government organization was calculated using the current Federal General Services pay scale for GS-classified billets or the current local Wage Grade pay scale for WG-classified billets. To convert the hourly WG rates to yearly salary, the estimate of 2,087 hours per year was used.

For military billets, equivalent pay was calculated from the current military pay scale, including a factor for retirement and FICA. The average time in service for each grade listed in the functions was obtained from G-A76 to determine the base pay. Retirement was estimated as 29.15% of base pay, and FICA was estimated as 7.15% of base pay. Basic Allowance for Quarters, and Basic Allowance for Subsistence (for Officers) were also included in the estimate. These same procedures were followed by the Coast Guard in their initial cost comparisons. [Ref. 22]

Table 8 compares the costs of the function as it is currently being performed with the costs of the hypothetical Government organization. As the Table demonstrates, contractor performance is still more economical. Although Department of Labor wage determinations have forced the contractors to pay their employees more, Federal wages have also increased. This has tended to preserve the cost advantages which the contractors enjoyed in the early stages of their respective contracts.

3. The Coast Guard cannot easily return to in-house performance where a function has been contracted out under A-76. First, to do this, billets to perform the function need to be obtained, either from some other area in the Service or, much less likely, from OMB. The Coast Guard has few, if any, billets available for reprogramming. Obtaining additional billets from OMB requires the demonstration of a need that might be very difficult to substantiate.

Second, the government estimate would automatically be increased by 25-percent for capital improvement. In recompeting a function, the Government is at a distinct disadvantage. For all practical purposes, once a function is contracted out under A-76, the Coast Guard will not be able to bring it back to in house performance.

TABLE 8

COMPARISON OF COST EFFECTIVENESS BETWEEN
HYPOTHETICAL GOVERNMENT ORGANIZATION
AND CONTRACT PRICE

| | BASE HONOLULU FAMILY HOUSING MAINTENANCE | GROUP SAN DIEGO FULL FOOD SERVICES |
|---|--|---------------------------------------|
| ESTIMATED COSTS, GOVERNMENT PERFORMANCE: | 334,728.08 | 361,540.72 |
| CURRENT YEAR CONTRACT PRICE: | <u>188,688.00</u> | <u>326,717.26</u> |
| CURRENT YEAR SAVINGS: | 146,040.08 | 34,823.46 |

| | SUPPORT CENTER SEATTLE GUARD SERVICES |
|---|---|
| ESTIMATED COSTS, GOVERNMENT PERFORMANCE: | 128,581.19 |
| CURRENT YEAR CONTRACT PRICE: | <u>118,058.09</u> |
| CURRENT YEAR SAVINGS: | 10,523.10 |

B. RECOMMENDATIONS

1. The Coast Guard should conduct a study to determine the full impact of contracting out functions under A-76. This thesis shows that the Government recognizes monetary savings under this policy. However, the effects of reduced flexibility, loss of opportunities for shore rotational tours, loss of training opportunities (especially for Subsistence Specialists serving in shoreside food service facilities), and other negative impacts caused by contracting out functions performed by Coast Guard personnel are unknown. These unknowns need to be better understood before too many more other functions are contracted out.

2. Deduct provisions should be included in all A-76 firm fixed price contracts. Although the three contractors studied in this thesis were very motivated to perform, the Coast Guard is not always guaranteed to have such luck in the future. Including deduct provisions provides a means for the Contracting Officer to get the attention of a substandard performer to make improvements.

3. Contracting Officer's Technical Representatives (COTR's) should all receive proper training. None of the three interviewed for this thesis had received any training other on-the-job training.

4. The Maintenance and Logistics Command (MLC), Pacific, should provide better contract administration,

especially in the area of contract interpretation. Requests for clarification of certain portions of the Base Honolulu Family Housing contract and the Group San Diego Full Food Services contract have not been answered. However, in all fairness to the MLC, while conducting research there, the author noted that the Contracting Officers all seemed to be overworked. The office would benefit by the addition of another Contracting Officer billet.

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Causes of cost in-
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contracted out under OMB
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Causes of cost in-
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Government contractors
performing Coast Guard
commercial activities
contracted out under OMB
Circular A-76.



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Causes of cost increases incurred by Gov



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